

HERSHEY'S



ANNUAL REPORT
DECEMBER 31, 1966



The Growing World of Hershey



Hershey Chocolate Corporation
Hershey, Pennsylvania
Oakdale, California

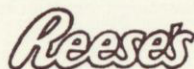
Hershey Chocolate of Canada Ltd.
Smiths Falls, Ontario

San Giorgio

San Giorgio Macaroni, Inc.
Lebanon, Pennsylvania

Delmonico

Delmonico Foods, Inc.
Louisville, Kentucky



H. B. Reese Candy Co., Inc.
Hershey, Pennsylvania



BOARD OF DIRECTORS

W. E. SCHILLER, *Chairman*

W. E. DEARDEN
J. HEMPHILL
H. S. MOHLER
G. NURICK
R. L. UHRICH
A. R. WHITEMAN

OFFICERS

H. S. MOHLER, *President*

W. E. SCHILLER, *Chairman of the Board
and Treasurer*

W. E. DEARDEN, *Vice President
Sales and Marketing*

R. L. UHRICH, *Secretary*

L. W. SIMMONS, *Comptroller*

EXECUTIVE OFFICES

19 EAST CHOCOLATE AVE.
HERSHEY, PA.

TRANSFER AGENT

FIRST NATIONAL CITY BANK

NEW YORK

REGISTRAR

MORGAN GUARANTY TRUST COMPANY

NEW YORK

AUDITORS

ARTHUR ANDERSEN & CO.

NEW YORK

To the Stockholders:

Hershey Chocolate Corporation, in the year 1966, established new records in sales, earnings and dividends. New product development continued at an increased rate and a number of new items were introduced. Two companies were acquired, marking your Company's first diversification beyond the chocolate and confectionery field. The Company is also in the process of developing almond orchards in California where some of the almonds required in the manufacture of its products will be grown.

Consolidated sales in 1966 (including \$5,631,406 of sales of new subsidiaries since acquisition in that year) were \$225,738,443 compared with \$211,780,687 in 1965. Net earnings were \$24,973,012 compared with \$24,722,000 in 1965 and earnings per share were \$2.09 and \$2.02 in the respective years. Dividends of \$1.075 per share were paid in 1966 and \$1.00 per share in 1965.

On February 25, 1966, the Company, through a wholly-owned subsidiary, made a tender offer to Hershey stockholders to purchase shares of common stock. At the same time it was announced that it was the intention of Hershey, either directly or through wholly-owned subsidiaries, to make purchases of its common stock from time to time on the open market. As a result of the tender offer and subsequent purchases on the open market a number of treasury shares were obtained. Some of the shares were used for acquisition of one of the companies mentioned above and at the end of the year 253,983 shares of the stock remained as treasury stock.

As is the case with most food processors, the supply and price of major raw materials are a constant challenge in the operation of the business. Cocoa beans, our principal raw material, have fluctuated widely in price, being sensitive to the law of supply and demand. The 1964-65 crop was the largest in history and prices dipped to the lowest level in almost two decades. Present indications are that the current crop will be the second largest in history but demand is also increasing. Prices have risen substantially, and at this time are higher than a year ago. It is too early to predict what average prices or Hershey's bean costs may be for the year 1967. Although these fluctuating prices are of concern, we remain firm in our conviction that the interests of both the producers and the consumers of cocoa beans will be served best by permitting the economic law of supply and demand, rather than stabilization agreements, to determine the price.

The prices for milk and sugar were higher in 1966 than in the previous year and it appears that these levels or somewhat higher ones will continue in 1967.

Taking into account the trend of increasing material and other costs the Company has, with due regard to competitive factors in the industry, made adjustments in its selling prices.

Food and food prices have been much in the news during the past year. Whether prices of consumer food products, including chocolate and confectionery, or agricultural commodities are too high or too low depends on one's point of view. The farmer, food processor, wholesaler and retailer are affected by the same inflationary pressures besetting the economy as a whole and each has striven for productivity gains which have offset these forces in varying degrees. Better value, consistent with sound and fair business practices at all levels, should be and is a constant objective of the food industry, and the record has been good. Today food purchases account for about 18% of disposable household income, compared to about 20% in 1960, and 26% twenty years ago.

Two companies in the macaroni industry were acquired in 1966. On June 24, San Giorgio Macaroni, Inc. became a wholly-owned subsidiary. The plant and executive offices are located in Lebanon, Pennsylvania, about 15 miles to the east of Hershey. The company manufactures a complete line of pasta products — macaroni, spaghetti, egg noodles — and spaghetti sauce and markets these products in Delaware, Maryland, New Jersey, New York, Pennsylvania and some other eastern seaboard states. On September 30, an approximate 90% interest was acquired in Delmonico Foods, Inc. Its plant and executive offices are located in Louisville, Kentucky and the company manufactures pasta products and markets them primarily in Indiana, Kentucky and Ohio.

These acquisitions in the pasta field are significant in that they represent Hershey's first move outside the chocolate and confectionery field. We are quite optimistic about the opportunities for growth within the chocolate and confectionery industry but believe, however, that diversification is desirable and are prepared to take further steps upon finding proper opportunities.

Your Company is the world's largest user of almonds and their supply and cost have been of concern to us for many years. A newly organized subsidiary, L. D. Properties Corporation, has acquired about 5,000 acres of land in California for almond orchard development. Tree plantings are under way and it is anticipated that the first significant crop will be harvested in 1971 or 1972. Although substantial production of almonds is anticipated from these ranches, they will provide only a portion of the Company's needs. By virtue of this move your Company, in future years, will be assured a more adequate supply of the types of almonds which it requires.

Several new products were introduced during the past year, including COCONUT CREAM EGGS under the Hershey label and PEANUT BUTTER EGGS under the Reese label for the Easter season. SCOTCHIES, peanut butter cups with a butterscotch coating, were a new and successful Reese entry during 1966. Additionally, junior bars of Milk Chocolate and "Krackel" and junior bags of "Hershey-ets" and Chocolate Covered Peanuts were introduced for Halloween sales and the "Dainties" line was expanded to include milk chocolate in addition to semi-sweet. Your Company has

also been making and test marketing new specially moulded chocolate Easter and Christmas items. The market for these specialties is sufficiently large to challenge our efforts to produce and market such items under the high quality standards and image established by Hershey and Reese.

Plant and property expenditures for the year were about \$6,000,000. This represents spending at a lower level than has been the case for the last several years. Expenditures were made for almond orchard land and development, for replacements of existing production facilities and for certain new facilities, particularly in connection with new items.

William E. Dearden was elected Vice President — Sales and Marketing at the February 8, 1967 meeting of the Board of Directors. Mr. Dearden had been Director of Sales and Marketing and is a member of the Board of Directors of the Company and of the Hershey Trust Company.

In Hershey Chocolate of Canada Ltd. two changes in organization should be noted. Last September James K. Morris joined the company and recently has been elected a Director and to the office of Vice President - General Manager. In January of 1967 William G. Greenley, Comptroller, was elected to the additional office of Treasurer. Before coming with Hershey, Mr. Morris had more than twenty-five years of selling and marketing experience in the Canadian chocolate and confectionery industry. Mr. Greenley joined the company in 1962 as one of its first employees and has served as Comptroller and Director of Finance and Administration.

We should like once again to remind you that plant tours are open to the public at our plants in California and Ontario, as well as at Hershey, Pennsylvania. In the year 1966 we welcomed 630,000 visitors to these plants. Of particular interest this year may be the plant in Smiths Falls, Ontario, approximately 50 miles due south of Ottawa. Many of you may be visiting Expo 67 in Montreal and you are cordially invited to tour our Smiths Falls plant during your visit.

In commenting on the most successful year in the history of the Company, we feel it is appropriate to emphasize with pride the devoted efforts of our employees, numbering more than 5,000. In the coming years, the ingenuity and dedicated spirit of our people will be a principal factor in "the growing world of HERSHEY".

Respectfully submitted,

W. E. Schiller

Chairman of the Board

H. S. Mohler

President

February 17, 1967

HERSHEY CHOCOLATE

and SUGAR

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31	
	<u>1966</u>	<u>1965</u>
CURRENT ASSETS:		
Cash.....	\$ 7,232,758	\$ 6,112,795
Marketable securities, at cost.....	12,540,252	13,590,153
Accounts receivable, less reserves ...	10,424,897	9,527,996
Inventories (See Note)	<u>75,960,503</u>	<u>68,040,479</u>
Total current assets	<u>\$106,158,410</u>	<u>\$ 97,271,423</u>
PLANT AND PROPERTY, at cost:		
Land, buildings and equipment	\$ 96,026,104	\$ 85,527,419
Less—Reserves for depreciation	<u>37,356,364</u>	<u>32,935,886</u>
Net plant and property	<u>\$ 58,669,740</u>	<u>\$ 52,591,533</u>
OTHER ASSETS.....	<u>\$ 5,713,293</u>	<u>\$ 1,997,636</u>
	<u>\$170,541,443</u>	<u>\$151,860,592</u>

NOTE: Inventories of cocoa beans, almonds, peanuts and milk, together with other inventories, are substantially all stated at cost under the "last-in, first-out" method.

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ALANCE SHEET

LIABILITIES

	December 31	
	<u>1966</u>	<u>1965</u>
CURRENT LIABILITIES:		
Loans payable within one year	\$ 2,106,622	\$ —
Accounts payable and accrued liabilities	8,528,535	7,795,989
Reserve for Federal and state income taxes	<u>11,076,968</u>	<u>10,033,007</u>
Total current liabilities	<u>\$ 21,712,125</u>	<u>\$ 17,828,996</u>
LONG TERM LOANS	<u>\$ 9,663,952</u>	<u>\$ —</u>
RESERVE FOR DEFERRED INCOME TAXES	<u>\$ 5,049,000</u>	<u>\$ 3,900,000</u>
STOCKHOLDERS' EQUITY:		
Common stock, without par value — Authorized 15,000,000 shares; issued 12,225,100 shares	\$ 9,030,848	\$ 9,030,848
Retained earnings	<u>133,134,109</u>	<u>121,100,748</u>
	<u>\$142,164,957</u>	<u>\$130,131,596</u>
Less: Treasury stock, at cost — 253,983 shares	<u>8,048,591</u>	<u>—</u>
Total stockholders' equity	<u>\$134,116,366</u>	<u>\$130,131,596</u>
	<u><u>\$170,541,443</u></u>	<u><u>\$151,860,592</u></u>

ch materials and wage costs included in finished goods and goods in process,
The remaining inventories are stated at the lower of average cost or market.

HERSHEY CHOCOLATE CORPORATION

and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

INCOME

	For the Years Ended December 31	
	1966	1965
NET SALES (Note 1).....	\$225,738,443	\$211,780,687
COSTS AND EXPENSES:		
Cost of goods sold	\$141,258,171	\$133,094,750
Shipping expenses.....	13,083,993	12,593,499
Selling, administrative and general expenses	17,538,831	15,416,073
Depreciation expenses.....	2,789,470	2,282,092
Total costs and expenses	\$174,670,465	\$163,386,414
Income from operations	\$ 51,067,978	\$ 48,394,273
OTHER INCOME (EXPENSE) Net	(460,966)	107,727
Income before income taxes...	\$ 50,607,012	\$ 48,502,000
PROVISION FOR INCOME TAXES:		
Federal income tax (Note 2).....	\$ 23,855,000	\$ 21,965,000
Pennsylvania income tax	1,779,000	1,815,000
Total income taxes	\$ 25,634,000	\$ 23,780,000
Net income for the year	\$ 24,973,012	\$ 24,722,000

NOTES: (1) Net sales in 1966 include \$5,631,406 of sales of new subsidiaries since acquisition in 1966.

(2) For 1966 and 1965 the investment credit, allowable under the Internal Revenue Act, has been credited to the provision for Federal income taxes. Such credits for prior years were deferred and are being amortized over the approximate life of the assets. This accounting treatment resulted in increased net income in 1966 of \$215,000 and in 1965 of \$1,160,000.

RETAINED EARNINGS

	For the Year Ended December 31, 1966
BALANCE AT DECEMBER 31, 1965.....	\$121,100,748
ADD — Net income for the year 1966	24,973,012
	\$146,073,760
DEDUCT — Dividends, \$1.075 a share.....	12,939,651
BALANCE AT DECEMBER 31, 1966.....	\$133,134,109

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

SOURCE:	<u>Year 1966</u>
Net income for the year	\$24,973,012
Income charges not requiring the disbursement of cash:	
Depreciation	\$2,789,470
Deferred income taxes	<u>907,000</u>
Funds provided from operations	3,696,470
Long term debt	28,669,482
	<u>9,663,952</u>
	<u>\$38,333,434</u>
 DISPOSITION:	
Dividends paid	\$12,939,651
Treasury stock acquired	8,048,591
New additions to plant and property	6,004,397
Plant and property of subsidiaries acquired, at dates of acquisition	3,992,964
Other (net)	2,343,973
	<u>\$33,329,576</u>
Increase in working capital	<u>\$ 5,003,858</u>

AUDITORS' REPORT

*To the Board of Directors and Stockholders of
Hershey Chocolate Corporation:*

We have examined the consolidated balance sheet of Hershey Chocolate Corporation (a Delaware corporation) and subsidiaries as of December 31, 1966, and the related statements of income, retained earnings and source and disposition of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income, retained earnings and source and disposition of funds present fairly the financial position of Hershey Chocolate Corporation and subsidiaries as of December 31, 1966, and the results of their operations and the source and disposition of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y.,
February 10, 1967.

ARTHUR ANDERSEN & CO.

HERSHEY CHOCOLATE CORPORATION
and Subsidiaries

TEN YEAR SUMMARY OF SALES, INCOME AND DIVIDENDS (1)

<u>Year</u>	<u>Net Sales</u>	<u>Net Income</u>		<u>Dividends</u>
		<u>Total</u>	<u>Per Common Share (2)</u>	<u>Per Common Share (2)</u>
1966	\$225,738,443 (3)	\$24,973,012	\$2.09	\$1.075
1965	\$211,780,687	\$24,722,000	\$2.02	\$1.00
1964	\$207,129,308	\$22,745,755	\$1.86	\$.925
1963	\$203,021,904	\$22,233,913	\$1.82	\$.90
1962	\$191,332,314	\$22,696,704	\$1.86	\$.90
1961	\$185,239,352	\$20,513,768	\$1.70	\$.80
1960	\$176,546,033	\$19,003,641	\$1.58	\$.74
1959	\$172,673,463	\$15,590,411	\$1.30	\$.68
1958	\$169,398,145	\$12,999,836	\$1.07	\$.63
1957	\$162,384,764	\$15,345,408	\$1.24	\$.62

NOTES:

- (1) Figures for H. B. Reese Candy Company, acquired on a pooling of interest basis in 1963, have been included in all years.
- (2) Figures for the net income per share and dividends per share have been adjusted to give retroactive effect to the five-for-one stock split made on March 27, 1962.
- (3) Net sales in 1966 include \$5,631,406 of sales of new subsidiaries since acquisition in 1966.

HERSHEY CHOCOLATE CORPORATION

and Subsidiaries

MANUFACTURING PLANTS

HERSHEY, PENNSYLVANIA
LOUISVILLE, KENTUCKY
SMITHS FALLS, ONTARIO

OAKDALE, CALIFORNIA
LEBANON, PENNSYLVANIA

WAREHOUSES UNITED STATES

ATLANTA, GA.
BILLINGS, MONT.
CAMBRIDGE, MASS.
CHICAGO, ILL.
CINCINNATI, OHIO
DALLAS, TEXAS
DAVENPORT, IOWA
DENVER, COLO.
DETROIT, MICH.
EAST ST. LOUIS, ILL.
HONOLULU, HAWAII
HOUSTON, TEXAS
JACKSONVILLE, FLA.
KANSAS CITY, MO.
LITTLE ROCK, ARK.

MEMPHIS, TENN.
MIAMI, FLA.
MILWAUKEE, WIS.
NEW ORLEANS, LA.
NORTH BERGEN, N. J.
OKLAHOMA CITY, OKLA.
OMAHA, NEB.
PHOENIX, ARIZ.
PITTSBURGH, PA.
PORTLAND, ORE.
ST. PAUL, MINN.
SALT LAKE CITY, UTAH
SEATTLE, WASH.
SAN JUAN, PUERTO RICO

WAREHOUSES CANADA

VANCOUVER, BRITISH COLUMBIA
MONCTON, NEW BRUNSWICK

CALGARY, ALBERTA
WINNIPEG, MANITOBA

SALES OFFICES

In principal cities of the United States and Canada.

*HERSHEY CONSUMER
PRODUCTS*

MILK CHOCOLATE BARS
ALMOND BARS
SEMI-SWEET BARS
KRACKEL BARS
MR. GOODBAR
BUTTER CHIP BARS
MINIATURE BARS
HERSHEY-ETS
MINT CHOCOLATE
CHOCOLATE COVERED ALMONDS
CHOCOLATE COVERED PEANUTS
COCONUT CREAM EGGS

*HERSHEY INDUSTRIAL
PRODUCTS*

COCOA POWDER
CHOCOLATE SYRUP
ICE CREAM FLAVORS

*REESE
PRODUCTS*

MILK CHOCOLATE PEANUT
BUTTER CUPS
SCOTCHIES PEANUT
BUTTER CUPS

*SAN GIORGIO
PRODUCTS*

MACARONI
PRODUCTS
SPAGHETTI

*DELMONICO
PRODUCTS*

MACARONI
PRODUCTS
SPAGHETTI

MILK CHOCOLATE KISSES
BAKING CHOCOLATE
DAINTIES
COCOA
CHOCOLATE SYRUP
INSTANT COCOA MIX
HOT CHOCOLATE POWDER
CHOCOLATE TOPPINGS
BUTTERSCOTCH TOPPING
SWEET MILK COCOA
MARSHMALLOW CUPS
HOLIDAY SPECIALTIES

CHOCOLATE COATINGS
PASTEL COATINGS
COCOA BUTTER

PEANUT BUTTER EGGS

EGG NOODLES
SPAGHETTI SAUCES

EGG NOODLES
SPAGHETTI SAUCES



